

Message Text

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16

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TAGS: EAID, ECON, PDEV, PP

SUBJ: PROJECTED AID CUTS TO PNG BY AUSTRALIA WILL HAVE
ALARMING REPERCUSSIONS

1. THE CHIEF MINISTER, MICHAEL SOMARE, ANNOUNCED IN THE HOUSE OF ASSEMBLY JULY 31 THAT AUSTRALIA HAS CUT ITS GRANT TO PNG FOR 1975-76. THE GOVERNMENT EXPECTED ABOUT K180 MILLION FROM AUSTRALIA IN LINE WITH AN EARLIER COMMITMENT FROM AUSTRALIA TO GIVE PNG \$A500 MILLION OVER THE THREE YEAR PERIOD 1974-77. PNG RECEIVED K166 MILLION FROM AUSTRALIA LAST YEAR, INCLUDING DEFENSE AND AUSTRALIAN STAFFING ASSISTANCE GROUP FUNDS.

2. SOMARE NOTED THAT ABOUT 52 PER CENT OF THE GPNG BUDGET IS PROVIDED BY AUSTRALIA. AN ADDITIONAL PROBLEM IS FACT THAT PRICES FOR PNG CASH CROPS ARE NOT GOOD AND THIS WILL PUT ADDITIONAL STRAINS ON REVENUES THIS NEXT FINANCIAL YEAR. SOMARE ALSO SAID THAT THE PUBLIC SERVICE AND GOVERNMENT DEPARTMENTS WERE A HEAVY DRAIN ON AVAILABLE FUNDS AND ADDED, "WE WON'T BE ABLE TO MEET ALL THE REQUIREMENTS."

3. CENTRAL PLANNING OFFICE OFFICIAL, JOHN LANGMORE, TOLD
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ECONOFF PROJECTED CUTS WERE APPROXIMATELY K20 MILLION. THE CUTS

ARE ACTUALLY INCREASES REQUESTED OVER THIS YEAR'S REQUIREMENTS WHICH MEANS THE GOA DECIDED TO HOLD ITS PNG AID SPENDING AT 1974-75 LEVELS RATHER THAN ALLOW THEM TO SLOWLY INCREASE. WITH INFLATION AND RISING IMPORT COSTS RUNNING AT 16-18 PER CENT, THIS MEANS A REAL DROP OF SIMILAR PROPORTIONS.

4. HOW IT HAPPENED: LANGMORE SAID THE WHITLAM GOVERNMENT HAD PUT TOGETHER AN INTERDEPARTMENTAL COMMITTEE AFTER LEARNING ITS OWN BUDGET DEFICIT WOULD BE ON THE ORDER OF \$A2.5 BILLION. THAT GROUP HAD NO REPRESENTATIVES FROM THE AUSTRALIAN DEPARTMENT OF FOREIGN AFFAIRS NOR FROM AUSTRALIAN AID OFFICIALS. THUS ITS DECISION TO HOLD SPENDING FOR PNG AT 1974-75 LEVELS WAS TAKEN WITHOUT AN UNDERSTANDING OF THE FULL CONSEQUENCES.

5. THE CONSENSUS HERE IS THAT THE GPNG CANNOT MAKE UP THE DIFFERENCE AND, UNLESS THE DECISION IS REVERSED (WHICH SEEMS LIKELY), THE EFFECTS WILL MEAN A REDUCTION OF GPNG PROGRAMS AND A POSSIBLE CUT IN SALARIES FOR PUBLIC SERVICE EMPLOYEES. ACCORDING TO LANGMORE, PNG DEPARTMENT HEADS SUBMITTED PROPOSALS FOR AN ADDITIONAL K50 TO K60 MILLION IN EXPENDITURES FOR NEXT YEAR'S BUDGET WHICH WERE CUT BY THE GOVERNMENT HERE BEFORE SENDING THE FINAL REQUEST FORWARD TO CANBERRA. CONSEQUENTLY, IT IS TRULY A "BARE BONES" BUDGET FROM A PNG GOVERNMENT DETERMINED TO REDUCE ITS RELIANCE ON OUTSIDE AID.

6. COMMENT: THE NEWS OF THE PROJECTED CUTS CERTAINLY CAME AS AN UNPLEASANT SHOCK TO OFFICIALS INVOLVED IN PLANNING NEXT YEAR'S BUDGET. ONLY TWO WEEKS AGO THE ECONOFF WAS TOLD BY CPO OFFICIALS THAT AUSTRALIAN AID WAS EXPECTED TO REMAIN AT ABOUT \$A200 MILLION INTO THE EARLY 1980S. IN FACT, PNG CANNOT GENERATE THE REVENUES TO MAINTAIN ITS APPROXIMATELY K375 MILLION ANNUAL BUDGET. THE ANNUAL SHORTFALL, AMOUNTING TO ROUGHLY K200 MILLION, WAS EXPECTED TO BE MADE UP BY THE GOA UNTIL OTHER MAJOR SOURCES OF REVENUE SUCH AS TWO OR THREE MORE LARGE SCALE MINING VENTURES CAME INTO PRODUCTION. AT THE MOST OPTIMISTIC, THIS WILL NOT BE UNTIL THE EARLY 1980S.

7. WE BELIEVE THE GOA WILL REVERSE THE AID REDUCTION THIS YEAR, SINCE TO DO OTHERWISE WOULD RESULT IN BITTER RECRIMINATIONS FROM THOSE WHO BELIEVE THEY ARE BEING RUSHED TO INDEPENDENCE LIMITED OFFICIAL USE

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BY AUSTRALIA. HOWEVER, TO HAVE EVEN ATTEMPTED AN AID REDUCTION IN THE "YEAR OF INDEPENDENCE" IS A CLEAR WARNING BY THE GOA THAT AUSTRALIAN AID AT THESE VERY HIGH LEVELS WILL CONTINUE TO BE SUBJECT TO SHARP SCRUTINY.

8. THE OPTIMISTS HERE WHO EXPECTED AUSTRALIAN AID TO MAKE UP ANY SHORTFALLS FOR AS LONG AS NECESSARY HAVE RECEIVED A RUDE SHOCK. IT COULD BE QUITE SALUTARY BY IMPRESSING ON ALL CONCERNED

THAT THE COUNTRY IS INDEED LIVING WELL BEYOND ITS MEANS AND THAT
IF IT EXPECTS TO MAINTAIN THE "HARD CURRENCY" JULIUS CHAN,
MINISTER FOR FINANCE, IS ADVOCATING, THEN SOME MAJOR READ-
JUSTMENTS WILL NEED TO BE MADE.
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